

Remarks by California State Treasurer Phil Angelides
to the
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Today, I would like to speak with you about some of the significant challenges facing California, and about the important role that strategic investment can play in contributing to the wealth and strength of our society and the quality of our environment.

But first, I would like to provide a little perspective. During the latter half of the 1990s, we witnessed a remarkable economic boom. In many respects, we ended the 20th Century as the richest state in the wealthiest nation on earth. Then, we were hit by the perfect economic storm – a series of financial squalls and gales and thunder bumpers that tore off our economic rudder and left us adrift.

We have been battered by an energy crisis, the collapse of the dot-com and telecom industries, increased national security threats after the September 11 attacks, a stock market plunge accelerated by a wave of corporate scandal unmatched since the Roaring '20s, and finally, a yawning State budget gap brought on by the national economic recession.

We have been starkly reminded that, in any society, economic success is continually earned, and not simply handed to us.

There is a natural human tendency – after a string of setbacks – to give in to dejection and hang our heads. But that obscures our vision. Now is not the time to look down. Indeed, in this time of crisis, given the immense challenges before us, we must look ahead and take the actions needed to ensure our economic sustainability in the decades to come.

I see two overarching challenges, in particular, that we must confront and overcome if we are to ensure California's continued economic, environmental, and social progress.

The first challenge is to find a way to meet the tremendous demands of projected growth, while preserving those unique environmental qualities that are so much a part of our economic strength.

In the years ahead, that will be a formidable task, given that California's population is expected to increase from today's 35 million to 46 million by 2020, and to 59 million by 2040.

The growth patterns now underway in California, combined with the explosive growth we are facing, threaten California's environmental quality and livability and ultimately will damage its economy if we do not act quickly.

The time has come to make new investments – not simply in traditional public works – but in a public fabric that supports smart growth, sustainable development, and environmental preservation.

There are many ways to illustrate the costs of current development patterns. In 2000, the total cost of traffic congestion in California – in lost time and fuel – was estimated at \$21.7 billion. Traffic congestion not only costs billions of dollars in lost economic productivity, it is a primary cause of the State's poor air quality. According to the American Lung Association, eight of the nation's 24 worst air quality basins for ozone pollution are here in California.

Present development patterns are consuming our open space at a rate even faster than our population growth. All over the State, the population growth of our metropolitan areas has been geometrically outpaced by the amount of land developed.

And the energy crisis that we endured in 2001 is not an anomaly. In so many ways, it was a reflection of what has plagued us in California – our inclination to under-invest in our infrastructure, and our tendency to over-consume our natural resources. If any good is to come from the energy crisis and the storm of financial problems that followed, perhaps it will be that they have served to awaken us to the challenges we face because of our rapid growth.

If we act now, we need not be victims of growth. Across the board, we must adopt policies and programs which foster sustainable development and sound environmental practices that contribute to long-term economic progress. Sprawl must be reduced through a renewed commitment to, and investment in, our urban neighborhoods, and those who plan development at the urban fringe must first raise a signpost for all to see, and on that signpost should be one word – sustainability.

If our growth policies are infused with these values, we can improve the quality of our air and water, enhance the livability of our communities, preserve the beauty of our beaches, mountains and deserts, and strengthen our economic health.

And let me just say at this point, that it is important to recognize that our ticket to economic competitiveness in the global economy of the 21st Century will be a high quality of life. While we must do a better job of creating a business environment that allows progressive entrepreneurs to flourish, we will never be the cheapest place to do business. So therefore, we must be the best, focusing on our competitive advantages – the quality of our environment, the quality of our workforce, and the quality of our enterprise.

Our second overarching challenge – and one that is even more daunting – is to find ways to grow that promote equality of opportunity across our State. For, future economic strength will be elusive if there are “two Californias” – with much of the State experiencing a buoyant economy while simultaneously there are communities suffering from economic decline and devastation. Our current patterns of growth,

unfortunately, too often have widened the gulf between California communities and increased the disparity of economic opportunity among our State's residents.

California has the greatest gap between rich and poor of all but three states, and the gap grew during the 1990s. More than one in six California children today lives in poverty. In the San Joaquin Valley, between Stockton and Bakersfield, the ratio is one in three.

In January of this year, the California Budget Project completed a study which showed that, even in the go-go years of the 1990s, the average income of the poorest 20 percent of California residents remained mired at about \$14,000 a year, while the average income of the wealthiest 5 percent soared to almost \$250,000.

If an artist were commissioned to create an economic mosaic of the State, it would display the vibrant colors of prosperous neighborhoods and thriving commercial and industrial areas. But the mosaic – in every region – also would be smudged with dull colors that portray economic despair, brownfields, and families struggling in poverty.

Dr. Cornel West, my Harvard classmate who is now a professor at Princeton, wrote in his book, *The Future of American Progressivism*, that:

“We now see a world of advanced sectors and regions connected to one another and weakly linked to the backward sectors and regions of their own societies.”

Sadly, that is all too true of California today. The distance between Pacific Palisades and Compton is measured by more than mere miles.

This growing division has direct consequences that threaten the State's future. Educational failure in our poorest communities will damage the quality of our workforce. Poverty will increase the fiscal burden on State and local governments. Inequality of opportunity will undermine faith in the political process. And poor growth patterns, fueled by the separation of communities, will degrade our environment.

The people of this State are very much aware that our current growth patterns are not sustainable. A recent survey found that, by large majorities, Californians ranked both the widening economic gap and diminution in the quality of life among their top concerns.

To secure our future, we need to focus on these twin challenges – how can we grow in a way that preserves the environment – and how can we reduce the economic inequality that persists throughout our great State? And I think it is important to note that these two challenges are so interrelated that it will be impossible to achieve the former without addressing the latter.

You may be thinking, at this point, just what is the connection between environmental degradation and the growing inequality of places and people? What is the

connection between traffic gridlock in the fast-growing suburbs and economic struggle in places such as East Palo Alto and Richmond in the Bay Area, and Lynwood and Bell in the Los Angeles basin?

Here is one example of the connection: Poor neighborhoods with scarce jobs, low levels of public services and poorly performing schools push out many families who have the resources to move. They flee to already fast-growing areas, which then have to absorb more people and more cars and provide more infrastructure and more services. You know the results in the suburbs – traffic congestion, poor air quality, overcrowded schools, skyrocketing housing prices, and too much distance between the location of jobs and the workers to fill them.

In the areas left behind, the downward economic spiral is accelerated. The tax base is eroded further, public services deteriorate, the quality of schools diminishes, and hope fades.

The question that should concern everyone in California is this. What can we do to bridge the gap between explosive growth in some places and economic struggle and little hope in others – to bridge this gap that threatens to tear our social fabric, degrade the environment, and dim the economic prospects for all of us?

Since I took office in January of 1999, I have worked – both here in California and at the national level – to forge investment policies and programs that support sustainable development and sound environmental practices and that contribute to long-term economic progress.

In June of 1999, the Treasurer's Office released a report called *Smart Investments*. And to date, our *Smart Investments* initiative has directed over \$12 billion in state infrastructure and community development funding to support environmentally responsible projects and growth patterns. A key element of this initiative is reducing sprawl through investment in urban, infill neighborhoods and economically struggling communities that we have too often thrown away in 25-year cycles.

Here are just a few examples of what we've done.

At the California Tax Credit Allocation Committee, which I chair, we adopted new criteria for annually awarding \$650 million in federal and state tax credits for the construction and rehabilitation of affordable rental housing.

We now give priority to projects in struggling neighborhoods in which housing is part of a comprehensive revitalization effort. We give preference to projects which meet a set of sustainable development goals – for example, projects within walking distance of transit, schools, parks and shopping; projects that exceed the State's energy efficiency standards by 15 percent; and projects that use sustainable building materials.

We have applied the same kind of thinking to a variety of public investment initiatives that we have fashioned in the Treasurer's Office.

For example, at the California Pollution Control Financing Authority, we have created Cal ReUSE – a \$10 million program to finance assessment and cleanup of brownfields in our urban neighborhoods. Also, at that authority, we created the Sustainable Communities Grant and Loan Program that has provided over \$4 million for locally sponsored smart growth initiatives which incorporate creative approaches and provide models that can be replicated in other communities.

And, our office led the successful drive for the adoption of a smart growth policy for State offices, setting a standard that State-owned and leased office space should be located near public transportation, affordable housing, and retail services – and that it should accommodate a mix of uses, and sited with the goal of reducing sprawl.

And consistent with the policies we articulated in *Smart Investments*, I sponsored Senator Burton's legislation that created the California Consumer Power and Conservation Financing Authority. The Authority's central mission is to spur the development of renewable energy sources so California can have a more diversified and environmentally sound energy portfolio, and to provide low-cost financing for energy conservation and efficiency measures that will reduce California's dependence on fossil fuels and out-of-state energy generators.

And I am hopeful that the Power Authority will play a critical role in meeting the State's new renewable power portfolio standards which require that by 2017, 20 percent of California's power will come from renewable energy sources.

All of these initiatives must be part of a larger effort in which we recommit ourselves to "smart and clean" in all of our public investments.

Our *Smart Investments* report also recognized that infrastructure investment is only one tool in a wide array of public policy initiatives that must be seriously pursued if we are to achieve our goal of sustainable growth.

Accordingly, as Treasurer, I have taken a leadership role in mobilizing the powerful instrument of investment capital, consistent with my fiduciary duties, to respond to the challenges of widening economic disparity and to make sustainable growth a reality in our State.

The State of California – principally through its \$270 billion-pension and investment portfolios – is woven into the fabric of the global capital markets. This investment power comes with the responsibility to manage capital wisely. It also allows us to set a leadership example in a new movement of capital to spur sustainable development in our State and nation.

It was in this context that, in May of 2000, we launched a new initiative – *The Double Bottom Line: Investing in California’s Emerging Markets* – which outlined a new set of State investment policies and programs to link the jet stream of the capital markets with public purpose. This initiative calls on the public sector – from public pension plans to state and local governments – to invest in ways that meet “the double bottom line.” By that I mean investing to achieve good returns while simultaneously broadening economic opportunity and fostering sustainable growth.

To date, our *Double Bottom Line* initiatives have directed more than \$8 billion in investment capital to create sustainable development in California’s communities.

Here are some of the “double bottom line” investments that we have made:

- We have invested more than \$1.3 billion in California Community Reinvestment Act mortgages to bolster homeownership in our urban communities.
- We have increased State deposits in California community banks and credit unions by over \$3.5 billion, providing capital for home and business lending.
- CalPERS and CalSTRS have committed over \$1.7 billion in new capital investment for urban, mixed use, infill development.
- The two pension funds also approved an \$800 million venture fund to grow businesses in underserved neighborhoods.

These investments are not only the right thing to do, they are the smart thing to do. They create more opportunities for people and businesses, and by doing so, they strengthen existing communities.

And there is a positive result that is very important: Investments that build the economies of struggling communities allow people to choose not to sprawl!

And building on that model, I am actively examining how we can deploy our State’s pension and investment funds, in partnership with the private sector, to get good returns by building an environmental technology industry that can fuel the California economy and put us on the leading edge of the industry globally.

As Treasurer, I clearly have worked to ensure that the State’s own investments enhance the environment, promote sustainable growth, and broaden equality of opportunity. I believe we are establishing important investment principles that have application beyond California.

It was in that vein that in February 2002, the CalPERS Investment Committee adopted my proposal to extend these principles to our investments in foreign emerging markets across this globe. I believe that our action will not only control investment risks

and yield better returns, but also create better results for the communities and environments of emerging nations.

In addition to evaluating foreign emerging markets for the usual factors such as market liquidity, settlement proficiency and transaction costs, our policy calls for CalPERS to screen potential investments in countries and companies for the factors that will affect long-term value and growth.

For the first time, we are looking at whether countries are moving towards true democracy and, therefore, free markets. We are looking at whether they are adopting equal opportunity policies that sustain human rights and workers' rights. And, yes, we are focusing on whether the countries and companies in which we invest are putting in place sustainable development and environmental protection policies that truly contribute to the long-term economic value which is the objective of our pension systems.

Now, under our new policies, our pension fund managers are reporting to us on the environmental practices of the emerging market companies in which they are investing our funds. Importantly, in the course of implementing our policies, our managers are entering into dialogue with these companies, inquiring about their practices, and imparting to them the importance that institutional investors like CalPERS place on sustainable business practices.

It is our hope that the policies and investment initiatives we have put forth can serve as models for a new era of community renewal and sustainable development that will secure our economic progress in the years and decades ahead. But clearly, the magnitude of the challenges before us requires that we broaden our public policy efforts and fully engage California's progressive private sector leadership in this important endeavor. The entrepreneurial talent which produced the most dynamic economy of the 20th Century must now be enlisted in helping to ensure our sustained economic success in the 21st Century.

The full engagement of the public and private sectors in pursuing the policies embodied in our *Smart Investments* and *Double Bottom Line* initiatives holds out great possibilities. The risks of not pursuing new paths of public policy will be a diminished quality of life, an uncertain economic future, and debilitating economic and social divisions.

The returns of investing prudently to foster sustainable economic policies will be a California of less congestion, less wasteful decay, more open space, and more opportunity.

We are on the verge of a great era in California – if we approach it wisely. We can sustain the California Dream if we stay environmentally strong and if we throw open the door of opportunity for everyone to participate.

Thank you for asking me to speak to you today.

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